93-8

Office of the Legislative Auditor

State of Montana

Report to the Legislature

March 1994

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1993

Department of Administration

This report contains ten recommendations for improving internal control, state financing, financial reporting, and compliance. These recommendations address:

- Accountability for federal surplus property and other federal assistance.
- State financing alternatives related to office space rental rates and equipment purchases.
- Noncompliance with state accounting law and policy.

Direct comments/inquiries to:
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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1991 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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March 1994

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Administration for fiscal years 1991-92 and 1992-93. This report contains 10 recommendations related to federal compliance, state financing alternatives for office space rental rates and equipment purchases, and financial reporting.

The department's written response to the audit recommendations is included in the back of the audit report. We thank the director and the department staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1993

Department of Administration

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*Attached to the department for administrative purposes.

Introduction

We performed a financial-compliance audit of the Department of Administration (department) for the two fiscal years ended June 30, 1993. The objectives of the audit were to:

1. Make recommendations for improvement in the department's management and internal controls.

2. Determine if the department complied with applicable laws and regulations.

3. Determine if the department's financial schedules present fairly the results of its operations for the two fiscal years ended June 30, 1993.

4. Determine the implementation status of prior audit recommendations.

This report contains ten recommendations designed to improve the department's internal control, compliance with state and federal laws and regulations, and financial reporting. In accordance with section 5-13-307(2), MCA, we analyzed and disclosed the cost, if significant and practicable to obtain, of implementing the recommendations made in this report.

Areas of concern deemed not to have a significant effect on the successful operations of the department are not included in this report, but have been communicated to department management.

Department Organization and Functions

The department consists of the Director's Office, eight divisions, and four administratively attached boards and agencies. The four attached boards and agencies are the Board of Examiners, the State Tax Appeal Board, the State Compensation Insurance Fund, and the Teachers' Retirement Division. A description of the department's primary functions during the audit period follows.

Director's Office - supervises and coordinates the activities of the department and the administratively attached boards and agencies, provides the department legal counsel, monitors general obligation debt, and furnishes staff support to the Board of Examiners.

Accounting and Management Support - operates the Statewide Budgeting and Accounting System; provides financial reporting policies and related training for all state agencies; and publishes the state's comprehensive annual financial report. The division also provides management support (accounting, budgeting, payroll, and personnel management) services to the department.

Architecture & Engineering - oversees the planning, design, and construction of state buildings, structures, and major maintenance projects.

General Services - maintains state buildings, provides mail and messenger services for state agencies in the Helena area, and contracts for capitol complex security. The division also manages office space allocation for state agencies other than the university system.

Information Services - provides central mainframe computer processing services for state agencies; shared statewide data communications network services; local and long distance telephone services; data processing planning and training; computer application development and support; microcomputer and office automation support services; radio frequency coordination liaison with local government; coordination and control of data processing equipment and software acquisitions; disaster recovery assistance for critical data processing applications; and control and coordination of the statewide 911 program.

Personnel - administers the state classification and pay plan; adopts state personnel policies; provides state employee training; administers the state's equal employment opportunity, affirmative action, deferred compensation, group benefits, and incentive awards programs; and acts on behalf of the state in labor relations and negotiations.

Procurement and Printing - provides centralized purchasing, printing, graphics, and duplicating services for state agencies and manages the state and federal surplus property programs.

Risk Management and Tort Defense - provides property appraisal services and insurance coverage for state agencies, administers the self-insurance and risk management program, and defends state agencies under the Tort Claims Act.

The Teachers' Retirement Division, the Public Employees' Retirement Division, and related retirement systems' funds, and the State Compensation Insurance Fund are covered in separately issued financial-compliance audit reports. We also issue a separate annual Electronic Data Processing (EDP) audit report of the state's data processing center and accounting system.

Prior Audit Recommendations

In the prior audit report for the two fiscal years ended June 30, 1991, we made eight recommendations to the department. Based on our review and our audit of the Information Processing Facility and Central Applications (93DP-33), we found the department implemented six and partially implemented two of the recommendations.

The partially implemented recommendation concerning accounting issues is discussed further in this report, beginning on page 16. The other partially implemented recommendation relates to collateral for state deposits. In the prior audit report, we recommended the department develop a system to adequately monitor pledged security levels and bank substitution of security. During our review of this recommendation we found the department has improved procedures. However, we also noted some problems that indicate continued effort on this recommendation is necessary. These problems have been discussed with department management.

As part of the audit, we also followed up on three recommendations addressed to the department in the Limited Scope Study of Relationships between State and County Governments (92SP-61) issued in May 1993. We found the department has implemented, or is in the process of implementing, these recommendations. We also followed up on a recommendation contained in the Board of Investments (91-3) audit issued in December 1991 that the department implement procedures to ensure timely payment of bond issue fee assessments. We found the department has implemented such procedures, but could improve the procedures as described beginning on page 14 of this report.

Findings and Recommendations

Federal Compliance

The department's federal assistance is not typical because it does not generally consist of direct federal reimbursement of program expenditures. The department receives nonmonetary assistance in the form of federal surplus property, expends federal assistance obtained by other state agencies from jointly held construction accounts, and receives assistance it passes through to other state agencies. The following five sections summarize concerns we identified and suggestions for improving the department's compliance with federal regulations.

Federal Surplus Personal Property Donation Program (CFDA #39.003)

The objective of the Surplus Personal Property Donation Program is to distribute federal surplus personal property to state and local public agencies and certain nonprofit, tax-exempt entities. The Department of Administration's Property and Supply Bureau manages this federal program. The bureau reported receiving federal surplus property valued at $3,491,685 and $3,617,602 in fiscal years 1991-92 and 1992-93, respectively. For reporting purposes, federal surplus property is valued at the original federal acquisition cost. Department officials estimate market value of surplus property is 10 to 15 percent of the original federal acquisition cost.

Potential donees file applications to participate in the program with the bureau. The bureau determines donee eligibility. Eligible donees submit information on the types of items they want or need. The bureau compiles this information into a "want list." Bureau personnel travel (to military bases, e.g.) to physically screen property and complete a request to hold property they may want. They also perform a "paper screen" by reviewing lists of available property provided through the bureau's memberships in the National Association of State Surplus Property Organizations and the Western Surplus Property Organization.

Bureau personnel then decide which items they will request and list the items on a transfer order. The bureau faxes transfer orders to the regional headquarters of the General Services Administration (GSA). The GSA authorizes the transfer orders

if the items requested are available and within the estimated award allocation limit to Montana.

The federal government transfers surplus property to the bureau. If the property is on a Montana military base, the donee may travel to the base and pick up the item to save transportation costs. The bureau contracts with trucking firms to transport other property to the bureau for storage. The bureau is responsible for ensuring the property is properly accounted for and adequately warehoused while in storage.

The bureau distributes the property through donation to eligible donees and ensures donees comply with donation provisions and proper use of property. The bureau recovers its operating costs by charging a fee to participating donees.

During our audit, we identified the following issues regarding the bureau's accountability for, incompatible duties over, and warehousing of federal surplus property.

Property Accountability

Bureau personnel file the "State Agency Monthly Donation Report of Surplus Personal Property" with the GSA quarterly. Bureau personnel compute the amount of property received to report to GSA by manually adding up the acquisition amount (donated value) on the transfer order forms issued to request federal surplus property. This method of computing the amount of property received can cause errors on the quarterly federal report because the transfer orders: 1) may not include items received which were not ordered; 2) may include items not received; and 3) do not document the dates items were received.

The bureau does not receive all items requested on transfer orders because other entities (e.g., other federal agencies) have higher priority when they request the same items. Sometimes the bureau receives items it did not order. According to bureau personnel, if they find a shortage or overage in the items shipped, they notify GSA by letter. Usually a copy of this letter is filed with the transfer order. However, if GSA finds the shortage or overage first, the bureau may not send a letter to GSA or document the discrepancy with the transfer order. Bureau personnel do not consistently document the items

received (and the related overages and shortages) on the transfer orders. Many of the receiving log sheets the bureau uses are thrown away after the information is input into the computer.

Federal regulations require the "property received amount" be the amount of property received and posted to the inventory records during the report period. Bureau personnel do not document the date items were received on the transfer orders. This increases the potential for including a transfer order amount on two quarterly reports or excluding it from both reports. The potential for reporting errors was exacerbated during the audit period because there was turnover in the position responsible for preparing the federal report and the bureau had no written procedures for preparing the report.

We cannot audit the amounts reported to GSA or the related amounts reported on the state's Schedule of Federal Financial Assistance for this program. The bureau cannot provide support for the amounts reported to GSA during the audit period. The support for the amounts reported on each quarterly federal report was an adding machine tape (which was thrown away) of transfer order totals (which may have been adjusted by the individual preparing the report for overages and shortages they knew about which were not documented on the transfer orders). The transfer order amounts exceed amounts reported to GSA by about $1 million each fiscal year.

The bureau should develop procedures to ensure federal surplus property received is properly accounted for and accurately reported. The bureau could use transfer orders as a basis of accounting for property received if all pertinent information was documented on the transfer orders. Alternatively, the bureau could use increases to inventory recorded on its inventory system, provided there were adequate controls and documentation to ensure all items received were recorded on the system in a timely manner. The bureau could also implement both methods and reconcile the two systems to verify the systems' integrity.

Recommendation #1

We recommend the department establish procedures to accurately account for and report the amount of federal surplus property received.

Incompatible Duties

After bureau personnel tag and price newly received property they manually list the property on a receiving log and assign each item an inventory number. The information from the log sheets is entered into the computer; then most of the log sheets are thrown away. The person who enters information from the log sheets into the computer sometimes also tags and receives merchandise. These duties are incompatible, in that the person could take property and alter records to indicate the property was not received. We could not determine the level of supervision the person receives and to what extent the person's work is reviewed.

In a previous audit we noted a similar situation with incompatible duties in cash handling at the bureau. Subsequent to our observation, a theft occurred. Bureau management should restructure staff responsibilities to eliminate incompatible duties. This would improve safeguards over surplus property.

Recommendation #2

We recommend the department restructure the duties of Property and Supply Bureau personnel to eliminate incompatible responsibilities.

Inadequate Warehousing

On December 2, 1993, we observed bureau personnel unload and store two semi-trailers of office furniture. Bureau personnel stored the items most susceptible to weather damage inside a warehouse. They covered many other items (including wood

desks, metal desks, fabric-covered chairs, wood chairs, and metal filing cabinets) with tarpaulins and stored them in a fenced yard. They prioritize items for susceptibility to weather damage because the amount of warehouse space is limited.

Federal regulations require that federal surplus property be adequately warehoused. To comply with federal regulations, the bureau should investigate its options. For example, the bureau could consider ways of reducing its inventory, as well as options for increasing warehouse space. The option of increasing warehouse space would involve construction costs, purchase of existing buildings, or additional rental expense. To reduce inventory, the bureau could limit items accepted for which no eligible donee has made a request.

Recommendation #3

We recommend the department investigate alternatives for warehousing federal surplus property.

Architecture and Engineering Division

The department's Architecture and Engineering Division (A&E) contracts for repairs and improvements to state facilities on behalf of state agencies. The division spends state, federal, and donated funds on these projects. The following two issues discuss the ramifications to federal programs of the division's noncompliance with federal regulations and state law concerning construction contracts.

Monitoring Debarred and Suspended Contractors

Federal regulations prohibit recipients and subrecipients of federal funds from awarding federal moneys to entities which have been debarred or suspended from participation in federal assistance programs. A debarred or suspended contractor is one listed as ineligible to receive a federal contract. A&E awards construction contracts for other agencies, including contracts funded with other agencies' federal moneys.

Division personnel stated the division relies on the agencies to be familiar with the federal requirements and to notify A&E if debarment requirements should be included in the bid package. We contacted three state agencies that contract through A&E for federally funded construction projects. One indicated the requirement did not apply to that agency; one indicated it informs A&E when the debarment requirement is necessary for contracts and A&E is responsible for ensuring the contractor has not been debarred; and one indicated A&E is wholly responsible for complying with the debarment requirement. Because responsibilities are not clearly defined between A&E and the funding agencies, procedures are not adequate to ensure the state does not award federal funds to debarred or suspended parties. Payments to such contractors would be unallowable charges to federal programs.

If the debarment requirement is applicable, A&E should clarify, with the funding agency, whether the agency or A&E is responsible for ensuring the contract: 1) is awarded to a party that has not been debarred or suspended and 2) contains language prohibiting use of subcontractors that have been debarred or suspended.

Recommendation #4

We recommend the department clarify procedures which assign responsibility for compliance with federal debarment and suspension requirements.

Access to Contractor Records

Section 18-1-118, MCA, restricts state agencies from spending money on a contract with a nonstate entity unless the contract contains a provision allowing the legislative auditor and the legislative fiscal analyst access to the contractor's records. A state agency may terminate a contract, without incurring liability, for the refusal of a nonstate entity to allow access to records as required under this statute.

We reviewed the standard contract provisions used by the division. These provisions do not include specific reference to access for legislative oversight agencies. A department official said the contract contains general language which requires the contract parties to comply with all applicable laws and regulations. We believe the statute requires specific reference to access for the cited parties for the division to legally expend money on the contract. In addition, the inability to access records on contracts could make it difficult to perform the oversight of these projects required by state and federal regulations.

Recommendation #5

We recommend the department ensure construction contracts contain provisions for access to contractor records as required by state law.

State Financing Issues

The department is responsible for several programs, and participates in agreements related to these programs, that affect other state agencies' budgets and finances. The following four sections summarize concerns we identified and suggestions for improvement in the department's office space management, central purchasing function, and state finance liaison roles.

Rental Rates

The department's General Services Division establishes rental rates charged to state agencies for office space based on contracted services and minimum maintenance costs. Rental rates include gas, electricity, water, janitorial work, and minor maintenance costs. The minimum maintenance costs include painting to common areas, minor door repairs, and other miscellaneous repairs. Other maintenance and repair projects must be funded separately. Carpet replacement, roof maintenance, electrical system upgrades, structural repairs, hazardous material removal, and window replacement are examples of maintenance costs not always included in the rental rate.

According to the Legislative Fiscal Analyst's office, the General Fund supported about 55 percent of the expenditures made (revenue received) for rent of department buildings in fiscal year 1991-92. Inclusion of all ordinary repair costs in the rental rate base could allow the state to recover more facilities costs from non-General Fund sources, such as federal programs and state special revenue funds.

The funding source frequently used for maintenance costs not recovered through the rental rate is the long range building program. If building maintenance costs were recovered through rental rates, 45 percent of the tax revenue designated for the applicable long range building program projects could be used for other projects or transferred to the General Fund. We reviewed the capital construction priority listing for the 1994-95 biennium. Based on analysis of funded projects, we estimate the department could recover $148,500 in this biennium. Since the estimate reflects current projects related to facility maintenance, rates set to cover facility maintenance over long periods may recover less or more than this one time estimate.

Department personnel stated several rental rate options have been explored. However, increasing rental rates to cover other maintenance and repair costs has not met with favorable acceptance because of the negative impact on individual state agencies' General Fund budgets. We believe funding maintenance and repair as separate projects from general tax revenues through the long range building fund may cause the general tax sources to pay more of these costs in the long run.

The department should continue exploring alternatives for including all repair and maintenance costs in its rental rate. For example, the department could propose establishing a separate account for these projects which would be funded with the portion of rental fees related to these additional costs. This should allow the department to recover more revenue from non-General Fund sources, help reduce the state's total General Fund building maintenance expenditures, and facilitate monitoring of the costs recovered through rental rates.

Recommendation #6

We recommend the department consider ways to include more repair and maintenance expenditures in its rental rate calculation.

Purchasing Credit Line

The department's Procurement and Printing Division negotiated a master financing agreement that allows agencies to purchase equipment and finance the payments over a period of three to five years. The agreement was formed in September 1990 with an investment services corporation after a competitive bid process. Interest rates vary monthly under this agreement and have ranged from 4.06 to 7.34 percent.

Under the master financing agreement, state agencies may obtain financing by signing an "installment finance agreement" and "supplement" with the investment corporation. Each agency agreement contains a funding clause that states the agency has the right to cancel the agreement if insufficient funds are appropriated. As of October 1993, 12 agencies have financed $9,408,134 in purchases under 67 agreements. The biggest user of this financing method is the department's Information Services Division, which has executed 41 agreements to purchase $6,919,845 worth of computer and telecommunication equipment.

Periods Financed Exceed Legal Limits

While the master financing agreement appears to provide an attractive method for financing equipment purchases, we noted eight instances where equipment was financed for periods exceeding those permitted in state law. Section 18-4-313, MCA, limits equipment contracts to a period of not longer than three years, except for telecommunication and data processing equipment contracts which may be formed for up to ten years. Equipment such as photocopiers, a hay baler, a printing collator, and a duplicating press were financed for a total of $518,771 over a period of five years. Since these items were not

telecommunication or data processing equipment, the maximum financing period permitted by state law was three years.

Purchasing Bureau personnel said section 18-4-313, MCA, allows for extensions or renewals of the contract and indicated the equipment agreements financed for five years could be considered a three year agreement with a two year extension. Personnel also indicated that the financing agreement is a good financing arrangement, and the statute may need to be amended to permit this type of financing for a period of longer than three years. It may be reasonable to seek a modification of the law to limit contracts to purchase equipment to the expected life of the equipment. However, the department should ensure financing agreements are made in compliance with the limits imposed by state law.

Recommendation #7

We recommend the department ensure equipment is financed for periods that do not exceed those permitted in section 18-4-313, MCA.

Exceptions to the Master Financing Agreement

During our review of the items financed through the master financing agreement, we noted three instances where the department's Purchasing Bureau, the contractor, and the agency seeking financing agreed to make an exception to the provisions in the master agreement. There was no documentation in the files acknowledging or justifying these exceptions.

The master financing agreement states the purpose of the agreement is to establish an agreement "between the State and the Contractor by which the Contractor shall establish individual installment financing agreements . . . for the acquisition of equipment to be used for governmental purposes by these entities." Eastern Montana College financed roof repairs of $285,000 and the University of Montana financed chemical laboratory supplies of $64,134. Since these purchases are not

equipment, they are not covered by the master financing agreement. Purchasing Bureau personnel stated that obtaining agreement from the contractor to finance these items was less expensive than negotiating and putting the items out to bid separately.

The master financing agreement also requires the contractor to deliver payment to the vendor. Compliance with this provision provides a control to prevent misuse or loss of funds loaned, including using the funds to restore appropriation authority for equipment previously purchased with state funds. Under a July 1993 installment financing agreement with Northern Montana College, the contractor sent the college the $50,000 financed because the college had paid the vendor in March 1993.

Since the department's Purchasing Bureau negotiated the master agreement, it should document its consideration of the risks taken and the benefits gained by making an exception to the master agreement before making the decision to not comply.

Recommendation #8

We recommend the department document justifications for exceptions to the master financing agreement.

Bond Fee Assessments

Title 17, chapter 5, part 13, MCA, titled "Montana Unified Volume Cap Bond Allocation Plan Act" allocates the state portion of bonds which may be issued under the Federal Tax Reform Act of 1986. In the definitions set forth for the act (section 17-5-1302(15), MCA), the Montana Higher Education Student Assistance Corporation (MHESAC) is considered a state issuer. Section 17-5-1312(2), MCA, states, "As a condition of receiving an allocation, each state issuer, upon issuance of the bonds, shall pay 30 cents per thousand of bonds to be deposited in the state general fund for the purpose of funding a portion of the comprehensive annual financial report audit."

During fiscal year 1991-92, MHESAC issued $153 million in bonds. MHESAC did not pay the bond fee assessment owed on $149 million of this issue because this portion was used to refund outstanding bonds. MHESAC believes refunding bonds are excluded from the bond fee assessment. However, section 17-5-1312, MCA, requires all state issuers to pay the bond fees for all bonds issued after January 1, 1988 and does not include any exceptions for refunding bonds.

As a result of a recommendation addressed to the department in the Board of Investments financial-compliance audit report for the fiscal year ended June 30, 1991 (91-3), the department established procedures to collect bond fee assessments. According to department personnel, they billed MHESAC for the remaining $44,997 assessment, but MHESAC has refused to pay and plans to request an Attorney General's Opinion on the issue. A letter from the Attorney General, in response to an earlier refusal of MHESAC to pay a bond fee assessment, said the assessment applied to the full amount of bonds issued.

The department does not have procedures in place to record a receivable and recognize revenue on its accounting records when the assessments are made. As a result, General Fund revenue is understated by $44,997 in fiscal year 1991-92 and General Fund receivables and fund balance are understated by $44,997 at June 30, 1992 and 1993.

The department should collect the bond fee assessment from MHESAC and establish procedures to record receivables and recognize revenue when bond fees are assessed. Without procedures to record bond fee assessments, revenue and receivables will be understated by the amount of assessments made but not collected at June 30.

Recommendation #9

We recommend the department:

A. Collect the $44,997 bond fee assessment from MHESAC, as required by state law.

B. Establish procedures to record a receivable and recognize revenue when bond fee assessments are billed.

Accounting Issues

Section 17-1-102(5), MCA, requires state agencies to input all necessary transactions to the accounting system before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of money and property for which the agency is accountable in accordance with generally accepted accounting principles. In addition, the department's Accounting and Management Support Division establishes state accounting policy as outlined in the Montana Operations Manual.

Accounting for financial activity in accordance with the above requirements improves the quality, consistency, and comparability of the resulting financial information within and between state agencies. The department's financial information is used by department personnel and others to manage and establish funding levels for the department. The following sections discuss instances where the department did not comply with state accounting policy and law.

Expenditure Abatements

State agencies normally record cash receipts as revenue. However, in certain circumstances, state policy provides for cash collections to be recorded as expenditure abatements (reductions of expenditures). State accounting policy in effect for the audit period permitted expenditure abatements for refunds of payments or reimbursements of expenditures properly chargeable to another fund. During the audit we found two situations where

the department inappropriately recorded expenditure abatements rather than revenue. With its actions, the department understated both revenue and expenditures and reestablished appropriation authority. The following paragraphs provide detail.

Accounting and Management Support Division

The department's Accounting and Management Support Division provides special and additional copies of standard accounting system reports, on request, to state agencies. Department personnel bill the agencies for the reports. When the department receives the agencies' payments, division personnel record an expenditure abatement, rather than revenue, for this activity. These transactions are not valid expenditure abatements because they are payments of routinely recurring service charges. Division personnel indicated the charges are recorded as abatements because the division provides the service as a convenience for the other agencies and because the cost of providing the services is not included in the division's budget. By abating expenditures instead of recording revenue, the department's financial records do not reflect the cost of the services it provides. Whether or not the division's appropriations include the cost of providing the service is not a valid reason for abating expenditures.

As a result of the improper expenditure abatements, division personnel understated General Fund revenue and expenditures by \$14,190 and \$14,877 in fiscal years 1991-92 and 1992-93, respectively. In addition, since the abatements improperly restored appropriation authority, the division exceeded its General Fund appropriation authority by \$9,277 and \$4,995, in fiscal years 1991-92 and 1992-93, respectively. If necessary, the division should seek appropriation authority to use the revenue it receives to cover costs of the reports it provides.

Insurance Settlement

In fiscal year 1992-93, the Risk Management and Tort Defense Division improperly recorded the receipt of a \$124,365 insurance settlement as an expenditure abatement rather than as revenue. As a result of the error, fiscal year 1992-93 expenditures and revenue in the Internal Service Fund are understated by \$124,365.

The division took legal action to recover from an insurance company part of a settlement the state had previously paid. If the insurance company had not settled and not been made responsible by court action, the state would have been fully responsible for the original payment. The settlement with the insurance company is not a repayment of an expense made for the convenience of the company. Therefore, the settlement does not qualify as a valid expenditure abatement according to state policy.

Division personnel indicated the second settlement transaction was recorded as an expenditure abatement to properly reflect the net cost of the original lawsuit settlement. The division uses historical net cost data to establish agencies' insurance premiums. Division personnel believe that not abating the payment settlement expenditures by the amount of the receipt settlement would have improperly inflated the agency's historical data. This does not justify using an expenditure abatement for a transaction that does not qualify according to state policy. The department could subtract settlement receipts from payments to calculate the net costs of claims for premium purposes.

Misclassified Fund

The department contracts with a private firm to act as a financial advisor to the state. Fees are collected from various state debt issuers at the time bonds are sold based on the amount of the bond issue. These fees and payments to the financial advisor are accounted for in an Agency Fund on the department's accounting records. During fiscal years 1991-92 and 1992-93, the department recorded receipts of $40,630 and $53,825 and payments of $9,367 and $1,500, respectively. At June 30, 1993, the account contained assets of $84,420.

According to generally accepted accounting principles, an agency fund includes assets held by the state for others as a trustee or agent. Department personnel indicated the activity is accounted for in the Agency Fund because the funds do not really belong to the department; costs are difficult to estimate; and it is not necessary to have appropriation authority to spend from an Agency Fund. However, the department, as staff for the Board of Examiners, is responsible for collecting and paying

the fees to the financial advisor, so the department is not holding the assets in trust for others. Therefore, the department should account for this financial activity in either the General Fund or Special Revenue Fund.

Recording Estimated Claims Payable

The department obtains an actuarial valuation of the estimated claims payable for Risk Management and Tort Defense Division every other year. When division personnel adjusted the estimated claims balance at June 30, 1993, they used the actuary's estimate which did not include claims paid in fiscal year 1992-93. As a result, they overstated estimated claims at June 30, 1993 and nonbudgeted expenditures for fiscal year 1992-93 by $3,204,471 on the department's accounting records.

The department should consider what the actuary has included in the estimate and adjust accordingly when recording the estimated claims balances at June 30. Department personnel indicated they are exploring the possibility of obtaining an annual actuarial estimate, which would help correct this problem.

Summary

In addition to the items mentioned above, we noted accounting errors (three in fiscal year 1991-92 and one in fiscal year 1992-93) that were discussed with management early in the audit. Subsequently, the department correctly recorded transactions of the type that were in error during fiscal year 1991-92 and corrected the fiscal year 1992-93 error on its accounting records by June 30, 1993. The last four audit reports have also contained recommendations to the department related to accounting errors. The department has corrected the specific errors or established new procedures to address specific issues discussed in prior reports. However, department personnel should establish more effective procedures to prevent and detect accounting errors and to ensure financial activity is properly recorded on the department's accounting records.

<u>Recommendation #10</u>

We recommend the department:

A. Seek appropriation authority to use the revenue received for preparing special accounting reports.

B. Record financial activity in accordance with state accounting laws and policies.

Independent Auditor's Report & Agency Financial Schedules

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance which can be placed on the amounts presented.

We issued an unqualified opinion on the Schedule of Changes in Fund Balances, the Schedules of Budgeted Revenue and Transfers In - Estimate and Actual, and the Schedules of Budgeted Program Expenditures and Transfers Out by Object and Fund - Budget and Actual as presented on pages A-4 through A-15. This means the schedules and accompanying note disclosures are fairly stated in all material respects and the user may place reliance on the information presented.

STATE OF MONTANA

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Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Department of Administration for each of the two fiscal years ended June 30, 1992 and 1993, as shown on pages A-4 through A-15. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Administration for the two years ended June 30, 1992 and 1993, in conformity with the basis of accounting described in note 1.

As discussed in note 1, the Department of Administration reclassified the employees' group benefits account from an Enterprise Fund to an Internal Service Fund in fiscal year 1992-93.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 22, 1993

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds
FUND BALANCE: July 1, 1991	$ 0[1]	$ 5,376,066	$ 10,597,412	$ 8,638,628
ADDITIONS				
Fiscal Year 1991-92				
Budgeted Revenue & Transfers In	61,727,333	5,355,976	30,230	1,526,749
Nonbudgeted Revenue & Transfers In	202,550		15,339,335	8,555
Prior Year Expenditure Adjustments	33,422			
Direct Entries to Fund Balance[2]	716,970		68,518	1,002,575
Cash Transfers In[3]		2,158,710	42,322,362	3,446,317
Prior Year Transfers In Adjustments			(27,004)	
Fiscal Year 1992-93				
Budgeted Revenue & Transfers In	63,684,446	4,315,898	23,453	1,739,418
Nonbudgeted Revenue & Transfers In	79,437		43,914,633	12,348
Prior Year Expenditure Adjustments	7,721	6,004		
Direct Entries to Fund Balance[2]	1,479,624	142,862		
Cash Transfers In[3]		1,977,178	48,336,407	3,415,767
Prior Year Revenue		2,369		
Prior Year Revenue Adjustments				
Prior Year Transfers In Adjustments				
Total Additions	127,931,503	13,958,997	150,007,934	11,151,729
REDUCTIONS				
Fiscal Year 1991-92				
Budgeted Expenditures & Transfers Out	21,688,998	6,001,569		6,017,074
Prior Year Expenditures		(37,220)		34,186
Prior Year Expenditure Adjustments		939		
Prior Year Transfers Out Adjustments	(46,321)	(808)		
Prior Year Revenue Adjustments	101,387			2,331
Support to State of Montana[4]	40,936,211			
Cash Transfers Out[3]		2,255,172		
Nonbudgeted Expenditures & Transfers Out			57,635,384	
Direct Entries to Fund Balance				
Nonbudgeted Prior Year Expenditure Adjustments				
Fiscal Year 1992-93				
Budgeted Expenditures & Transfers Out	22,352,756	4,542,881		6,121,015
Prior Year Expenditures		252,505		258,156
Prior Year Transfers Out Adjustments	(10,574)	(284)		
Prior Year Revenue Adjustments	35,244			
Support to State of Montana[4]	42,873,802			
Cash Transfers Out[3]		2,086,919		
Nonbudgeted Expenditures & Transfers Out			92,851,587	
Direct Entries to Fund Balance[2]			142,863	1,133,624
Nonbudgeted Prior Year Expenditure Adjustments				
Total Reductions	127,931,503	15,101,673	150,629,834	13,566,386
FUND BALANCE: June 30, 1993	$ 0[1]	$ 4,233,390	$ 9,975,512	$ 6,223,971

1 See Note 3 on page A-10.
2 See Note 4 on page A-11.
3 See Note 5 on page A-11.
4 See Note 6 on page A-12.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is pr
on page A-8.

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Enterprise Funds	Internal Service Funds	Unexpended Plant Funds	Renewal and Replacement Funds
$ 9,414,113	$ 14,169,121	$ 0	$ 0
31,596,205	38,512,721		
35,516	57,143		
33,955	146,603		
24,506	30,680		145,869
	(20,126)		
	74,678,476		
	96,059		
31,829	117,401		
	9,595,910		
6,843	31,343	777,805	329,480
1,718			
	(10,858)		
31,730,572	123,235,352	777,805	475,349
31,530,076	40,673,232		266,947
16,642	117,356		
633,480	(1,324,284)[4]		
54	139,340		
(7,489)	2,009,096[4]		
7,319	71,810,728	1,178,269	469,272
13	5,682		220,620
	191,975		
	1,888,011[4]		
8,930,644			43,978
	12,149,761[4]		
41,110,739	127,660,897	1,178,269	1,000,817
$ 33,946	$ 9,743,576	$ (400,464)	$ (525,468)

'ovided in the notes to the financial schedules beginning

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	Licenses and Permits	Charges For Services	Investment Earnings	Fines & Forfeits	Rentals Leases & Royaltie
Fiscal Year 1992-93					
GENERAL FUND					
Estimated Revenue	$ 5,000	$ 3,001	$21,717,000	$ 732,000	$4,000
Actual Revenue	2,131	117,514	12,916,816	999,230	5,062
Collections Over(Under) Estimate	$(2,869)	$ 114,513	$(8,800,184)	$ 267,230	$1,062
SPECIAL REVENUE FUNDS					
Estimated Revenue		$ 10,000	$ 720,535	$1,895,000	
Actual Revenue		0	189,874	2,246,727	
Collections Over(Under) Estimate		$ (10,000)	$ (530,661)	$ 351,727	
DEBT SERVICE FUNDS					
Estimated Revenue		$ 20,000	$ 10,399		
Actual Revenue		19,476	3,977		
Collections Over(Under) Estimate		$ (524)	$ (6,422)		
CAPITAL PROJECTS FUNDS					
Estimated Revenue		$ 71,000	$ 459,935		
Actual Revenue		80,237	297,780		
Collections Over(Under) Estimate		$ 9,237	$ (162,155)		
INTERNAL SERVICE FUNDS					
Estimated Revenue		$71,924,226	$ 1,492,000		
Actual Revenue		69,997,691	1,500,630		
Collections Over(Under) Estimate		$(1,926,535)	$ 8,630		
RENEWAL AND REPLACEMENT FUNDS					
Estimated Revenue					
Actual Revenue					
Collections Over(Under) Estimate					
Fiscal Year 1991-92					
GENERAL FUND					
Estimated Revenue	$ 5,000	$ 51,001	$17,951,000	$ 732,000	$3,000
Actual Revenue	1,837	111,893	16,494,467	1,122,195	5,316
Collections Over(Under) Estimate	$(3,163)	$ 60,892	$(1,456,533)	$ 390,195	$2,316
SPECIAL REVENUE FUNDS					
Estimated Revenue		$ 10,000	$ 758,563	$1,895,000	
Actual Revenue		3,420	428,100	2,216,825	
Collections Over(Under) Estimate		$ (6,580)	$ (330,463)	$ 321,825	
DEBT SERVICE FUNDS					
Estimated Revenue		$ 20,000	$ 15,182		
Actual Revenue		19,476	10,754		
Collections Over(Under) Estimate		$ (524)	$ (4,428)		
CAPITAL PROJECTS FUNDS					
Estimated Revenue		$ 71,000	$ 476,541		
Actual Revenue		140,899	477,366		
Collections Over(Under) Estimate		$ 69,899	$ 825		
ENTERPRISE FUNDS					
Estimated Revenue		$34,985,150	$ 868,001		
Actual Revenue		30,526,577	1,067,585		
Collections Over(Under) Estimate		$(4,458,573)	$ 199,584		
INTERNAL SERVICE FUNDS					
Estimated Revenue		$33,229,610	$ 551,000		
Actual Revenue		34,294,917	505,781		
Collections Over(Under) Estimate		$ 1,065,307	$ (45,219)		

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information

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TRATION
RS IN - ESTIMATE AND ACTUAL
D JUNE 30, 1993

', ; s	Miscellaneous	Other Financing Sources	Federal	Grants, Contracts, Donations, & Abandonments	Sale of Documents, Merchandise & Property	Total
	$ 15,000	$44,892,002	$ 200,000			$67,568,003
	33,516	49,430,133	180,044			63,684,446
	$ 18,516	$ 4,538,131	$ (19,956)			$(3,883,557)
	$ 500,000	$ 1,986,804	$ 885,380	$ 561,000		$ 6,558,719
	215,095	817,242	756,557	90,403		4,315,898
	$(284,905)	$(1,169,562)	$(128,823)	$(470,597)		$(2,242,821)
						$ 30,399
						23,453
						$ (6,946)
	$ 10,500	$ 850,100	$ 10,000	$ 1,979		$ 1,403,514
	30,375	1,331,026	0	0		1,739,418
	$ 19,875	$ 480,926	$ (10,000)	$ (1,979)		$ 335,904
	$ 24,100	$ 182,835			$3,691,682	$77,314,843
	84,859	189,981			2,905,315	74,678,476
	$ 60,759	$ 7,146			$ (786,367)	$(2,636,367)
		$ 16,250				$ 16,250
		0				0
		$ (16,250)				$ (16,250)
	$ 6,000	$44,788,001	$ 425,000			$63,961,002
	32,942	43,768,526	190,157			61,727,333
	$ 26,942	$(1,019,475)	$(234,843)			$(2,233,669)
	$ 675,000	$ 786,710	$ 400,000	$ 650,000		$ 5,175,273
	804,803	776,742	887,086	239,000		5,355,976
	$ 129,803	$ (9,968)	$ 487,086	$(411,000)		$ 180,703
						$ 35,182
						30,230
						$ (4,952)
	$ 27,500	$ 850,100	$ 616,691	$ 10		$ 2,041,842
	25,963	881,363	0	1,158		1,526,749
	$ (1,537)	$ 31,263	$(616,691)	$ 1,148		$ (515,093)
	$ 5,000					$35,858,151
	2,043					31,596,205
	$ (2,957)					$(4,261,946)
	$ 20,100	$ 182,065			$3,351,300	$37,334,075
	294,946	183,200			3,233,877	38,512,721
	$ 274,846	$ 1,135			$ (117,423)	$ 1,178,646

is provided in the notes to the financial schedules beginning on page A-8.

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	Director's Office	Governor Elect Program	Accounting Program	Architecture & Engineering Program	Procurement & Printing Division	Information Services Division	Gen Ser Pro
PERSONAL SERVICES							
Salaries	$ 296,642	$ 14,298	$ 580,976	$ 378,472	$ 1,386,916	$ 3,610,649	$ 5
Other Compensation	75						
Employee Benefits	66,256	1,885	138,947	87,005	366,687	831,040	1
Total	362,973	16,183	719,923	465,477	1,753,603	4,441,689	6
OPERATING EXPENSES							
Other Services	9,909	9,014	644,299	169,863	123,284	483,354	1,2
Supplies & Materials	3,203	699	5,040	12,106	63,072	269,781	6
Communications	7,967	693	15,456	12,929	87,192	5,292,110	
Travel	3,429	2,212	1,512	23,752	38,966	73,496	
Rent	12,681	300	19,860	26,836	157,328	1,569,290	1
Utilities					71,530		1,0
Repair & Maintenance	2,041		8,055	4,845	290,256	687,030	2
Other Expenses	4,161		7,473	7,541	20,960	160,948	2
Goods Purchased For Resale					6,055,284		
Total	43,391	12,918	701,695	257,872	6,907,872	8,536,009	2,7
EQUIPMENT AND INTANGIBLE ASSETS							
Equipment	9,669		21,430	4,236	119,802	2,450,281	1
Intangible Assets	45		1,735		18,132	6,119	
Total	9,714		23,165	4,236	137,934	2,456,400	1
CAPITAL OUTLAY							
Land and Interest In Land							
Buildings						1,843	
Other Improvements						6,583	
Total						8,426	
GRANTS							
From State Sources						25,000	
Total						25,000	
LOCAL ASSISTANCE							
From State Sources			14,483			85,860	
From Other Income Sources						928,583	
Total			14,483			1,014,443	
BENEFITS & CLAIMS							
From State Sources							
Insurance Payments							
Total							
TRANSFERS							
Accounting Entity Transfers			16,491,383	726,222		91,578	5
Nonmandiatory Transfers							
Total			16,491,383	726,222		91,578	5
DEBT SERVICE							
Bonds			3,546,317			38,339	
Leases							
Installment Purchases					43,323	3,804,539	
Lease Participation Notes						1,501,875	
Total			3,546,317		43,323	5,344,753	
TOTAL PROGRAM EXPENDITURES	$ 416,078	$ 29,101	$21,496,966	$1,453,807	$ 8,842,732	$21,918,298	$3,5
GENERAL FUND							
Budgeted	$ 362,647	$ 50,000	$50,367,657		$ 436,359	$ 300,000	$ 3
Actual	346,140	29,101	19,687,200		427,501	299,999	2
Unspent Budget Authority	$ 16,507	$ 20,899	$30,680,457		$ 8,858	$ 1	$
SPECIAL REVENUE FUNDS							
Budgeted	$ 11,634		$ 501,134	$ 786,753		$ 1,441,666	
Actual			501,107	727,585		1,173,283	
Unspent Budget Authority	$ 11,634		$ 27	$ 59,168		$ 268,383	
CAPITAL PROJECTS FUNDS							
Budgeted			$ 1,450,000	$ 756,002			$ 5
Actual			1,245,210	726,222			5
Unspent Budget Authority			$ 204,790	$ 29,780			$
ENTERPRISE FUNDS							
Budgeted							
Actual							
Unspent Budget Authority							
INTERNAL SERVICE FUNDS							
Budgeted	$ 70,079		$ 63,450		$ 9,610,751	$20,691,026	$3,5
Actual	69,938		63,449		8,415,231	20,445,016	3,1
Unspent Budget Authority	$ 141		$ 1		$ 1,195,520	$ 246,010	$ 3
UNEXPENDED PLANT FUNDS							
Budgeted							
Actual							
Unspent Budget Authority							
RENEWAL & REPLACEMENT FUNDS							
Budgeted							
Actual							
Unspent Budget Authority							

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in

1 of 2

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Y OBJECT AND FUND - BUDGET AND ACTUAL
30, 1993

General Services Program	Mail & Distribution Bureau	State Personnel Division	Risk Management & Tort Defense	State Tax Appeal Board	Long Range Building Program: Departments and Agencies	Long Range Building Program: University System	Long Range Building Program: Institutions	Total
$ 529,581	$ 211,422	$ 916,823	$ 332,223	$179,573				$ 8,437,575
				30,463				30,538
141,987	70,452	225,190	76,853	40,546				2,046,848
671,568	281,874	1,142,013	409,076	250,582				10,514,961
1,217,057	5,154	899,213	2,042,644	11,961				5,615,752
60,774	5,184	37,787	12,567	5,353				475,566
7,492	2,125,442	40,352	11,659	6,038				7,607,330
9,268	9,031	21,350	10,936	11,561				205,513
134,510	12,466	43,238	8,698	8,556				1,993,763
1,094,520								1,166,050
227,828	14,065	9,527	3,164	2,970				1,249,781
29,967	839	57,565	13,804	795				304,053
								6,055,284
2,781,416	2,172,181	1,109,032	2,103,472	47,234				24,673,092
10,318	6,500	31,900	675	23,626				2,678,437
327		1,157	698	1,297				29,510
10,645	6,500	33,057	1,373	24,923				2,707,947
					$ 113,619			113,619
					2,295,045	$ 3,234,518	$ 1,691,754	7,223,160
		4,641			60			11,284
		4,641			2,408,724	3,234,518	1,691,754	7,348,063
								25,000
								25,000
				2,669				103,012
								928,583
				2,669				1,031,595
		30,661,383						30,661,383
			2,791,032					2,791,032
		30,661,383	2,791,032					33,452,415
58,422					316,999	10,946		17,695,550
						93,540		93,540
58,422					316,999	104,486		17,789,090
								3,584,656
		4,296						4,296
	1,388							3,849,250
								1,501,875
	1,388	4,296						8,940,077
$3,522,051	$2,461,943	$32,954,422	$5,304,953	$325,408	$ 2,725,723	$ 3,339,004	$ 1,691,754	$106,482,240
$ 313,760		$ 900,329		$338,885		$ 791,102		$ 53,860,739
265,930		889,533		325,408		81,944		22,352,756
$ 47,830		$ 10,796		$ 13,477		$ 709,158		$ 31,507,983
		$ 10,000	$ 500,000		$34,598,862	$ 36,250	$ 3,723,721	$ 41,610,020
			212,078		1,928,828			4,542,881
		$ 10,000	$ 287,922		$32,670,034	$ 36,250	$ 3,723,721	$ 37,067,139
$ 58,426					$ 5,467,854	$34,644,839	$ 28,677,343	$ 71,054,464
58,422					789,888	1,609,519	1,691,754	6,121,015
$ 4					$ 4,677,966	$33,035,320	$ 26,985,589	$ 64,933,449
		$ 545			$ 27,474			$ 28,019
		489			6,830			7,319
		$ 56			$ 20,644			$ 20,700
$3,504,193	$2,582,039	$44,751,898	$6,110,686		$ 38,809			$ 87,422,931
3,197,699	2,461,943	32,064,400	5,092,875		177			71,810,728
$ 306,494	$ 120,096	$12,687,498	$1,017,811		$ 38,632			$ 15,612,203
						$11,525,612		$ 11,525,612
						1,178,269		1,178,269
						$10,347,343		$ 10,347,343
					$ 8,598	$ 2,991,716		$ 3,000,314
						469,272		469,272
					$ 8,598	$ 2,522,444		$ 2,531,042

ded in the notes to the financial schedules beginning on page A-8.

overlap
2 of 2

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	Director's Office	Accounting Program	Architecture & Engineering Program	Procurement & Printing Division	Information Services Division	General Services Program	D
PERSONAL SERVICES							
Salaries	$238,033	$ 593,203	$ 386,420	$ 1,228,014	$ 3,431,540	$ 515,440	$
Other Compensation	25		3,000				
Employee Benefits	51,163	135,847	85,181	323,777	761,707	137,729	
Total	289,221	729,050	474,601	1,551,791	4,193,247	653,169	
OPERATING EXPENSES							
Other Services	9,357	389,948	124,028	124,236	515,087	1,199,921	
Supplies & Materials	5,871	4,210	13,232	33,616	263,292	98,583	
Communications	5,873	20,729	15,215	95,176	6,034,135	8,604	
Travel	3,030	182	26,214	29,556	80,835	10,002	
Rent	9,974	20,653	26,414	132,999	1,330,396	161,982	
Utilities				33,233		1,131,858	
Repair & Maintenance	2,280	7,262	5,236	315,355	623,775	164,884	
Other Expenses	2,561	6,069	16,757	12,972	124,606	27,669	
Goods Purchased For Resale				7,664,800	2,730		
Total	38,946	449,053	227,096	8,441,943	8,974,856	2,803,503	
EQUIPMENT AND INTANGIBLE							
Equipment	17,875	1,553	23,130	256,881	2,448,937	27,553	
Intangible Assets	7,395	1,318		1,601	295,214	593	
Total	25,270	2,871	23,130	258,482	2,744,151	28,146	
CAPITAL OUTLAY							
Land and Interest in Land							
Buildings					9,065	10	
Other Improvements					9,650		
Total					18,715	10	
GRANTS							
From State Source							
Total							
LOCAL ASSISTANCE							
From State Sources					126,776		
From Federal Sources		16,775					
From Other Income Sources					1,255,024		
Total		16,775			1,381,800		
BENEFITS & CLAIMS							
From State Sources							
Insurance Payments						1,000	
Total						1,000	
TRANSFERS							
Accounting Entity Transfers		16,281,825	715,248		85,576	54,547	
Total		16,281,825	715,248		85,576	54,547	
DEBT SERVICE							
Bonds		2,433,125			37,654		
Leases							
Installment Purchases					2,729,321		
Lease Participation Notes					1,506,113		
Total		2,433,125			4,273,088		
TOTAL PROGRAM EXPENDITURES	$353,437	$19,912,699	$1,440,075	$10,252,216	$21,671,433	$3,540,375	
GENERAL FUND							
Budgeted	$312,621	$19,324,529		$ 424,380	$ 300,000	$ 340,917	
Actual	285,070	18,561,235		418,256	299,999	259,977	
Unspent Budget Authority	$ 27,551	$ 763,294		$ 6,124	$ 1	$ 80,940	
SPECIAL REVENUE FUNDS							
Budgeted	$ 11,634	$ 494,060	$ 755,780		$ 1,807,509		
Actual		494,057	724,827		1,713,264		
Unspent Budget Authority	$ 11,634	$ 3	$ 30,953		$ 94,245		
CAPITAL PROJECTS FUNDS							
Budgeted		$ 850,000	$ 755,700			$ 58,419	
Actual		826,131	715,248			54,547	
Unspent Budget Authority		$ 23,869	$ 40,452			$ 3,872	
ENTERPRISE FUNDS							
Budgeted							
Actual							
Unspent Budget Authority							
INTERNAL SERVICE FUNDS							
Budgeted	$ 68,590	$ 31,277		$ 9,988,181	$19,936,902	$3,437,659	
Actual	68,367	31,276		9,833,960	19,658,170	3,225,851	
Unspent Budget Authority	$ 223	$ 1		$ 154,221	$ 278,732	$ 211,808	
UNEXPENDED PLANT FUNDS							
Budgeted							
Actual							
Unspent Budget Authority							
RENEWAL & REPLACEMENT FUNDS							
Budgeted							
Actual							
Unspent Budget Authority							

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the no

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ID - BUDGET AND ACTUAL
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Mail & Distribution Bureau	State Personnel Division	Risk Management & Tort Defense	State Tax Appeal Board	Long Range Building Program: Departments and Agencies	Long Range Building Program: University System	Long Range Building Program: Institutions	Total
$ 197,772	$ 911,897	$ 308,888	$176,837				$ 7,988,044
			49,983				53,008
65,047	217,530	68,876	39,370				1,886,227
262,819	1,129,427	377,764	266,190				9,927,279
6,976	841,185	2,096,662	20,271	$ 9			5,327,680
3,305	24,069	29,086	8,342				483,606
1,939,617	42,177	12,888	8,286				8,182,700
10,647	21,811	17,459	9,668				209,404
12,011	42,411	8,508	7,549				1,752,897
							1,165,091
10,506	8,169	6,571	2,569				1,146,607
989	48,334	10,480	2,327				252,764
							7,667,530
1,984,051	1,028,156	2,181,654	59,012	9			26,188,279
5,516	13,833	9,968	5,010	2,725	$ 600,000		3,412,981
493	1,436	1,881	174	0	0		310,105
6,009	15,269	11,849	5,184	2,725	600,000		3,723,086
				58,796	1,610		60,406
				4,591,011	1,544,773	$ 583,668	6,728,527
				62,262	33,572	0	105,484
				4,712,069	1,579,955	583,668	6,894,417
				7,500			7,500
				7,500			7,500
			4,737				131,513
							16,775
							1,255,024
			4,737				1,403,312
	30,439,956						30,439,956
		3,494,676					3,495,676
	30,439,956	3,494,676					33,935,632
				238,300	10,977		17,386,473
				238,300	10,977		17,386,473
				1,062			2,471,841
	4,296						4,296
347							2,729,668
							1,506,113
347	4,296			1,062			6,711,918
$2,253,226	$32,617,104	$6,065,943	$335,123	$ 4,961,665	$ 2,190,932	$ 583,668	$106,177,896
	$ 966,503		$371,466		$ 1,767,500		$ 23,807,916
	919,940		335,123		609,398		21,688,998
	$ 46,563		$ 36,343		$ 1,158,102		$ 2,118,918
	$ 10,000	$ 700,000		$35,301,892		$ 3,699,237	$ 42,780,112
	3,296	656,777		2,409,348			6,001,569
	$ 6,704	$ 43,223		$32,892,544		$ 3,699,237	$ 36,778,543
				$ 8,398,763	$38,080,611	$ 42,025,770	$ 90,169,263
				2,514,122	1,323,358	583,668	6,017,074
				$ 5,884,641	$36,757,253	$ 41,442,102	$ 84,152,189
	$37,294,395			$ 145,905			$ 37,440,300
	31,506,159			23,917			31,530,076
	$ 5,788,236			$ 121,988			$ 5,910,224
$2,346,406	$ 191,690	$6,236,339		$ 50,000			$ 42,287,044
2,253,226	187,709	5,409,166		5,507			40,673,232
$ 93,180	$ 3,981	$ 827,173		$ 44,493			$ 1,613,812
					$ 1,876,468		$ 1,876,468
					0		0
					$ 1,876,468		$ 1,876,468
				$ 15,000	$ 3,174,600		$ 3,189,600
				8,771	258,176		266,947
				$ 6,229	$ 2,916,424		$ 2,922,653

tes to the financial schedules beginning on page A-8.

page A-7

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1. Summary of Significant Accounting Policies

Basis of Accounting

The Department of Administration uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental and Agency Funds. In applying the modified accrual basis, the department records:

> Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.
>
> Expenditures for valid obligations when the department incurs the related liability and it is measurable.

The Department of Administration uses accrual basis accounting for the Proprietary Funds and Plant Funds. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned if measurable; it records expenses in the period incurred, if measurable.

Expenditures and expenses may include entire budgeted service contracts even though the department received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

State accounting policy also requires the department to record the cost of employees' annual leave and sick leave when used or paid.

Basis of Presentation

The financial schedules format is in accordance with the policy of the Legislative Audit Committee. The schedules are prepared from the Statewide Budgeting and Accounting System without adjustment. Accounts are organized in funds according to state law. The department uses the following funds:

Governmental Funds

General - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - to account for proceeds of specific revenue sources legally restricted to expenditures for specific

purposes. Department Special Revenue Funds include architecture and engineering construction, airport loans, 911 program, oil overcharge money, and various benefit programs (i.e., crime victims benefits and battered spouse).

Debt Service Funds - to account for accumulated resources for the payment of general long-term debt principal and interest. The department uses these funds for bond payments for the 1989A, 1985A, and 1983B general obligation bonds.

Capital Projects Funds - to account for resources used for purchase or construction of major capital facilities. The department accounts for the long range building program in these funds.

Proprietary Funds

Enterprise Funds - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate. Department Enterprise Funds included the employees' group benefits account in fiscal year 1991-92. In fiscal year 1992-93, the employees' group benefits account was reclassified from an Enterprise Fund to an Internal Service Fund to comply with Governmental Accounting and Reporting Standards.

Internal Service Funds - to account for providing goods or services to other agencies or departments on a cost-reimbursement basis. Department Internal Service Funds include central stores, printing, data processing, telecommunications, building maintenance, mail distribution, self-insurance services, legal services, training, leases; and, beginning in fiscal year 1992-93, the employees' group benefits account.

Fiduciary Funds

Agency Funds - to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. Department fiduciary funds include deferred compensation contributions and investments; construction advances; and bond fees, interest, and principal payments.

Plant Funds

Plant Funds - to account for the transactions relating to investment in University System properties. Because of Architecture and Engineering Division participation in expending funds for university construction projects, the Long Range Building Plan includes transactions for the following subfunds:

Unexpended Plant Funds are comprised of amounts which have been appropriated or designated for land, improvements, buildings, and equipment.

Renewal and Replacement Funds are comprised of amounts provided for the remodeling or replacement of university properties.

Account Groups

General Fixed Assets Account Group - account for all fixed assets of the state, except those accounted for in the Proprietary, Nonexpendable Trust, Pension Trust, and Plant Funds.

General Long-Term Debt Account Group - to account for all long-term obligations of the state, except those accounted for in Proprietary, Nonexpendable Trust, Pension Trust, and Plant Funds.

2. Compensated Leave

Employees at the department accumulate both annual and sick leave. Nonexempt employees accumulate compensation leave covered by the Fair Labor Standards Act. The department pays employees for 100 percent of unused annual leave credits, 25 percent of unused sick leave credits and 100 percent of unused Fair Labor Standards Act leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave, and compensatory time are not reflected in accompanying financial schedules. The department absorbs expenditures for termination pay in its annual operational costs. At June 30, 1993, the department had a liability of $686,218 for vacation leave, $359,483 for sick leave, and $30,303 for Fair Labor Standards Act leave. Of the $1,076,004 total for compensated leave, $812,374 is a liability of the Internal Service Funds and $263,630 is a liability of other funds.

3. General Fund Balance

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero.

4. Direct Entries to Fund Balance

The significant portions of direct entries to fund balance in the General Fund, Enterprise Fund, and Internal Service Fund consist of the following.

General Fund

Direct entries to fund balance for fiscal year 1991-92 are the result of a transfer of Coal Tax Loan Reserves by the Department of Commerce for $500,000; a transfer of social security settlement funds of $120,548; and airport loan repayments to the General Fund.

Direct entries to fund balance for fiscal year 1992-93 include a transfer from the Capital Projects Fund of $1,133,624 and a transfer from the Office of Public Instruction Traffic Safety Program of $300,000 to the General Fund as a result of the July 1992 Special Session.

Enterprise and Internal Service Funds

A direct entry for fiscal year 1992-93 of $9,877,543, to reclassify the employees' group benefits account as an Internal Service Fund, decreases the Enterprise Funds' and increases the Internal Service Funds' fund balances at June 30, 1993.

5. Cash Transfers

The cash transfers in recorded in the Debt Service Funds represent a statutory percentage of corporate license and income taxes collected by the Department of Revenue for the payment of the state's general obligation debt.

Special Revenue and Capital Projects Funds cash transfers in result from funds provided by state agencies, including units of the university system, for construction project expenditures incurred by the department's Architecture and Engineering Division.

Special Revenue Funds cash transfers out are recorded to distribute settlements and fines collected by the department to traffic safety programs and oil overcharge funded energy programs administered by other state agencies.

6. Nonbudgeted Expenditures

Nonbudgeted Prior Year Expenditure Adjustments - During fiscal year 1992-93, the Risk Management and Tort Defense Division adjusted the estimated claims liability by $12,765,528 to the amount estimated by the state's consulting actuary. Because the adjustment applied to fiscal year 1991-92, a prior year adjustment account was used to record the increase. During fiscal year 1991-92, the division also adjusted the estimated claims liability by $2,350,654 for the prior year.

Nonbudgeted Expenditures and Transfers Out - During fiscal year 1992-93, the Risk Management and Tort Defense Division recorded $3,547,000 of nonbudgeted expenditures for insurance claims and settlements. Information Services Division abated $1,568,989 of nonbudgeted expenditures to capitalize equipment expenditures. During fiscal year 1991-92, the Information Services Division removed $1,324,284 of nonbudgeted expenditures for equipment capitalization.

7. Debt Disclosure

The department's long-term debt at June 30, 1993 consisted of the following:

Long Term Debt Account Group	
General Obligation Bonds	$49,590,000
SRS Lease Purchase Agreement	518,918
Internal Service Fund	
Telecommunications Lease Purchase Certificate[1]	625,000
Equipment Leases/Installment Purchases	1,894,490
Total	$52,628,408

[1]Final payment is due in fiscal year 1993-94.

8. Fixed Assets

The department is responsible for recording land, buildings, and construction work in progress for all state agencies and funds except as noted below:

Department of Transportation	Higher Education Units
Department of State Lands	Full Accrual Funds
Department of Military Affairs	Expendable Trust Funds
Department of Fish, Wildlife & Parks	School for the Deaf and Blind
State Compensation Insurance Fund	Unemployment Insurance Division
Department of Corrections and Human Services	

The department also does not record property located outside of Helena but owned by agencies located in Helena. The department's fixed asset balances at July 1, 1991, and June 30, 1993, and the net changes in these balances are shown below:

Schedule of Changes in Fixed Assets

	Balance at 7/1/91	Net Changes In Balances	Balance at 6/30/93
Enterprise Funds			
Equipment	$ 23,930	$ (23,930)	$ 0
Less Accumulated Depreciation	(12,277)	12,277	0
Net Fixed Assets	$ 11,653	$ (11,653)	$ 0
Internal Service Funds			
Equipment	$ 28,286,442	$ 5,039,998	$ 33,326,440
Less Accumulated Depreciation	(18,463,221)	(7,457,364)	(25,920,585)
Other Improvements	11,975	0	11,975
Less Accumulated Depreciation	(852)	(2,276)	(3,128)
Net Fixed Assets	$ 9,834,344	$(2,419,642)	$ 7,414,702
General Fixed Asset Account Group			
Buildings and Other Improvements	$ 38,562,113	$ 124,794	$ 38,686,907
Land	2,694,249	0	2,694,249
Construction in Progress	422,367	1,321,286	1,743,653
Equipment	570,870	151,259	722,129
Museum	79,000	32,315	111,315
Total	$ 42,328,599	$ 1,629,654	$ 43,958,253

9. Deferred Compensation Plan

Since 1976, the State of Montana has offered a deferred compensation plan which allows employees to set aside a portion of their salary each payday towards retirement while deferring the state and federal income taxes until future years. The payroll deferrals are invested with Nationwide Insurance. All employees of the State are eligible to participate. The plan operates under the sanction of both state and federal laws (Section 457 of the Internal Revenue Code). The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The following table provides a summary of the increases and decreases of the Employees Deferred Compensation Agency Fund for the two fiscal years ended June 30, 1993, (in thousands):

Fund Assets (at market value), July 1,1991	$70,674,529
Deferrals of compensation	15,139,178
Earnings and adjustment to market value	13,856,572
Payments to eligible participants and beneficiaries	(9,058,369)
Administrative Expenses	(715,447)
Fund Assets (at market value), June 30, 1993	$89,896,463

10. Self-Insurance Funds

The department maintains several self-insurance plans. A brief description of each plan and the method of recording transactions are discussed below.

Group Employee Comprehensive Medical and Dental Plan - This plan is fully self-insured, with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees and their dependents. Organ transplants have been reinsured with Blue Cross and Blue Shield of Montana, which also administers the plan under contract. There is no third party coverage.

Premiums are collected through payroll deductions, deductions through the Public Employees' Retirement System and self-payment and are recorded as revenue in the employees' group benefits account. A liability of $6 million has been recorded in the department's records for estimated claims which have been incurred but not reported as of June 30, 1993.

Property Insurance Plan - This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, retail liquor stores inventory, and inland marine. The state self insures the $150,000 deductible per occurrence for property insurance. A third-party pays the next $1.2 billion for the University System and the Capitol Complex and $50 million for all other state property. Flood and earthquake liability limit is $100 million per occurrence.

Premiums are collected from all state agencies including higher education units and are recorded as revenue in the Administration Insurance Internal Service Fund.

The state is a defendant in numerous lawsuits involving insurance claims. Department management evaluated, on a case-by-case basis, unpaid claims filed against the state. In addition, the state's contracted actuarial firm has issued a report estimating claims for the period 7-1-82 to 6-30-93. Based on these evaluations, management estimates that as of June 30, 1993, the Administration Insurance Internal Service Fund has estimated liabilities of $15.4 million. The fund has reserves available of $4 million. Reserves are insufficient by $11.4 million.

11. Tax Anticipation Note

On October 6, 1993, the state issued $88,900,000 in Tax and Revenue Anticipation Notes, Series 1993, due June 30, 1994. The proceeds of the notes will provide cash to support expenditures from the General Fund, pending the receipt of tax revenues for the fiscal year ending June 30, 1994.

Agency Response

DEPARTMENT OF ADMINISTRATION

DIRECTOR'S OFFICE

MARC RACICOT, GOVERNOR
MITCHELL BUILDING

STATE OF MONTANA

(406) 444-2032
FAX: 444-2812

PO BOX 200101
HELENA, MONTANA 59620-0101

RECEIVED
MAR 11 1994
LEGISLATIVE AUDITOR

March 11, 1994

Scott A. Seacat
Office of the Legislative Auditor
State Capitol
Helena, MT 59620

Dear Scott:

We have reviewed the recommendations pertaining to the Financial Compliance Audit for the Two Fiscal Years Ended June 30, 1993. Our responses follow:

RECOMMENDATION #1

WE RECOMMEND THE DEPARTMENT ESTABLISH PROCEDURES TO ACCURATELY ACCOUNT FOR AND REPORT THE AMOUNT OF FEDERAL SURPLUS PROPERTY RECEIVED.

RESPONSE

We concur. We have established the following procedures to comply with this recommendation:

Transfer order forms are issued when federal surplus property is requested from the federal government. When federal surplus property is received, the transfer order forms are marked as to what is received and what is not received. The adjusted transfer order form is used to fill out a tab sheet for pricing purposes. The information from the tab sheet is then entered into the computer.

Quarterly federal reports are prepared by netting original transfer order forms with the shortage letters that are sent to the federal government when equipment is requested but not received. In addition, the dollar totals of original transfer orders are now saved in the computer to eliminate the need to recalculate for preparation of the quarterly federal reports.

The federal government's auditors had reviewed the accounting system and are satisfied with the way the program was being administered.

RECOMMENDATION #2

WE RECOMMEND THE DEPARTMENT RESTRUCTURE THE DUTIES OF PROPERTY AND SUPPLY BUREAU PERSONNEL TO ELIMINATE INCOMPATIBLE RESPONSIBILITIES.

RESPONSE

We concur. We will establish procedures to correct this situation.

RECOMMENDATION #3

WE RECOMMEND THE DEPARTMENT INVESTIGATE ALTERNATIVES FOR WAREHOUSING FEDERAL SURPLUS PROPERTY.

RESPONSE

We concur. We are currently investigating alternatives for warehousing.

RECOMMENDATION #4

WE RECOMMEND THE DEPARTMENT CLARIFY PROCEDURES WHICH ASSIGN RESPONSIBILITY FOR COMPLIANCE WITH FEDERAL DEBARMENT AND SUSPENSION REQUIREMENTS.

RESPONSE

We concur. The Architecture & Engineering Division will modify its procedures to ensure that the funding agency provides information during the initial stages of project setup clarifying whether or not federal debarment requirements pertain to a project. Based upon the information provided by the agency, the A&E Division will then be responsible for including appropriate language in the contract documents and for awarding the contract to a party that has not been debarred or suspended.

RECOMMENDATION #5

WE RECOMMEND THE DEPARTMENT ENSURE CONSTRUCTION CONTRACTS CONTAIN PROVISIONS FOR ACCESS TO CONTRACTOR RECORDS AS REQUIRED BY STATE LAW.

RESPONSE

We concur. The Architecture & Engineering Division will expand standard contract language to include a provision "allowing the

legislative auditor and the legislative fiscal analyst access to the contractors' records."

RECOMMENDATION #6

WE RECOMMEND THE DEPARTMENT CONSIDER WAYS TO INCLUDE MORE REPAIR AND MAINTENANCE EXPENDITURES IN ITS RENTAL RATE CALCULATIONS.

RESPONSE

We concur. The department has previously proposed including more maintenance costs in the rental rate, but this suggestion has not been incorporated into the Executive Budget. The Department will propose alternate cost recovery plans to OBPP during the Executive Budget process.

RECOMMENDATION #7

WE RECOMMEND THE DEPARTMENT ENSURE EQUIPMENT IS FINANCED FOR PERIODS THAT DO NOT EXCEED THOSE PERMITTED IN SECTION 18-4-313, MCA.

RESPONSE

We concur. We have notified agencies of these financing restrictions.

RECOMMENDATION #8

WE RECOMMEND THE DEPARTMENT DOCUMENT JUSTIFICATIONS FOR EXCEPTIONS TO THE MASTER FINANCING AGREEMENT.

RESPONSE

We concur. Further, we may amend the master financing agreement to include purchases other than equipment.

RECOMMENDATION #9

WE RECOMMEND THE DEPARTMENT:

A. COLLECT THE $44,997 BOND FEE ASSESSMENT FROM MHESAC, AS REQUIRED BY STATE LAW.

RESPONSE

We concur. The bond fee assessment of $44,997 due from MHESAC is recorded on the Department of Administration's books as a receivable. MHESAC is seeking an Attorney General's Opinion as to whether refunding bonds are excluded from the bond fee assessment.

The previous Attorney General's letter of advice pertained to payment of a bond assessment fee on bonds allocated under the volume cap prior to January 1, 1988.

B. ESTABLISH PROCEDURES TO RECORD A RECEIVABLE AND RECOGNIZE REVENUE WHEN BOND FEE ASSESSMENTS ARE BILLED.

RESPONSE

We concur. A receivable is now recorded and revenue recognized concurrent with the bond assessment fee billing to the agency who has issued bonds.

RECOMMENDATION #10

WE RECOMMEND THE DEPARTMENT:

A. SEEK APPROPRIATION AUTHORITY TO USE THE REVENUE RECEIVED FOR PREPARING SPECIAL ACCOUNTING REPORTS.

RESPONSE

We partially concur. The Department will request additional appropriation authority in the 1996-1997 biennium to use the revenue received for obtaining additional reports for agencies which are requested on a routine recurring basis.

Special requests, made infrequently and not recurring, for which it is not feasible to have an agency billed directly by ISD, will continue to be treated as a reimbursement for the convenience of the agency per Management Memo 2-92-1 on Interentity Transactions. We will request the agency to reimburse the Department for the cost of running the report. Funds received will be properly accounted for as an expenditure abatement. If a special request becomes recurring and the receipt of revenue routine, the Department will incorporate it into its appropriation request for the next biennium.

B. RECORD FINANCIAL ACTIVITY IN ACCORDANCE WITH STATE ACCOUNTING LAWS AND POLICIES.

RESPONSE

We concur. The Department will continue to make every effort to detect and correct accounting errors to assure financial activity is properly recorded.

We appreciate the opportunity we have had to interact with your staff on these issues.

Sincerely,

Lois Menzies

Lois Menzies
Director